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AGENDA ITEM 6

TO: MEMBERS OF THE BENEFIT AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: Actuarial Valuation Report for the 1959 Survivor Benefit Program as of June 30, 2007

II. PROGRAM: Actuarial & Employer Services

III. RECOMMENDATION:

It is recommended that the committee accept staff's June 30, 2007 actuarial valuation report for the Public Agencies' 1st, 2nd, 3rd, 4th, and Indexed Levels and for the State and Schools 5th Level of the 1959 Survivor Program and adoption of the following employer and employee monthly premiums for fiscal year 2008-2009 (shown also are results from 2007-2008 for comparison):

	2007-2008 Premium			2008-2009 Premium		
Pool	Employer	Employee	Total	Employer	Employee	Total
State 5th Level Pool*	$5.30	$5.30	$10.60	$5.20	$5.20	$10.40
Schools 5th Level Pool*	$0.00	$2.00	$2.00	$0.00	$2.00	$2.00
PA 1st Level Pool**	$0.00	$2.00	$2.00	$0.00	$2.00	$2.00
PA 2nd Level Pool**	$0.00	$2.00	$2.00	$0.00	$2.00	$2.00
PA 3rd Level Pool**	$0.00	$2.00	$2.00	$0.00	$2.00	$2.00
PA 4th Level Pool**	$2.80	$2.00	$4.80	$2.50	$2.00	$4.50
PA Indexed Level Pool*	$0.80	$2.00	$2.80	$0.90	$2.00	$2.90

* Section 21581 of the California Public Employees' Retirement Law requires mandatory cost sharing when the total premium exceeds $4.00

** Mandatory $2.00 member monthly premium required

IV. Analysis

Background

The 1959 Survivor Benefit program provides six different levels of survivor benefits for employees who die while actively employed and without Social Security coverage. The program is intended to serve as a replacement for the survivor benefits that would otherwise be provided by Social Security.

All levels of the 1959 Survivor Program are "pooled" benefits. For all levels other than the Indexed Level, participating employers contribute a monthly amount per member as determined by the Term Insurance Method. The use of this method is specified by State Statute Sections 21574.7(f), 21574(e), 21573(h), 21572(i), and 21571(g).

For the Public Agency Indexed Level of the 1959 Survivor benefit, participating employers contribute a monthly amount per member as determined by the Entry Age Normal Method. The use of this method was determined by the Board as specified by State Statute 21574.5(f). In all cases contributions are billed to employers apart from the employer's contribution rate for retirement and disability benefits. For those employers in each pool as of the valuation date, the employer Normal Cost is adjusted by an amortization of the surplus or unfunded liability.

Prior Year's Experience

The exhibit below shows a 4-year history of the funded status between valuation dates for each pool on a market value basis. The market value indicator (as opposed to the actuarial value) is a truer measure of the solvency of the plan, since it compares the market value of assets on hand to pay liabilities. Further, the market value indicator provides a basis for comparison against past years, since the market value indicator is not influenced by changes in actuarial smoothing methods. Overall, it can be seen that the financial well-being of the 1959 Survivor Program is in excellent condition and has been improving over the last few years.

Pool	2004 Market	2005 Market	2006 Market	2007 Market
State	78.4%	82.2%	84.7%	95.1%
School	379.6%	432.0%	443.6%	522.0%
PA Level 1	872.7%	1,048.2%	1,152.7%	1,373.5%
PA Level 2	361.7%	368.1%	394.7%	457.2%
PA Level 3	302.6%	325.9%	346.6%	401.0%
PA Level 4	138.2%	139.6%	141.8%	157.9%
PA Indexed	159.0%	157.1%	160.2%	174.9%
Total Pools	144.9%	151.2%	156.0%	176.2%

All pools in the 1959 Survivor program realized a positive asset return of approximately 19% for fiscal year 2006-2007, which is above our assumed long-term rate of return on assets of 7.75%. Rate stabilization policies have kept employer rates relatively stable between valuation years, as market value funded ratios continue to improve for all pools.

Liability gains and losses across all pools continue to display a random pattern around zero. In fact, over the last 3 years, the average gain/loss over 7 pools (21 data samples) amounts to a gain of only $756. This indicates that the demographic assumptions and normal cost premiums are extremely accurate in anticipating the true long-term cost of the plans. However, we are anticipating some volatility in the future as migration out of the smaller pools, that are closed to new contracting, causes their size (active population) to dwindle.

Following is a summary of the gains and losses attributed to each pool, the market value of assets not yet recognized due to rate stabilization and the changes (if any) to the total premium:

State Pool

- Asset gain of $1,390,996. Remaining assets not yet recognized: $19,473,943 (14.97% of the Market Value of Assets)
- Liability Gain/Loss - $392,387 loss, some of which can be attributed to actual claims being higher than expected
- Total Premium - Decreased $0.20, from $10.60 to $10.40

School Pool

- Asset gain of $673,266. Remaining assets not yet recognized: $9,425,721 (14.93% of the Market Value of Assets)
- Liability Gain/Loss - $86,338 gain
- Total Premium - Remains at $2.00, the required employee offset

Public Agency Level 1 Pool

- Asset gain of $388,581. Remaining assets not yet recognized: $5,440,140 (15.88% of the Market Value of Assets)
- Liability Gain/Loss - $57,270 gain
- Total Premium - Remains at $2.00, the required employee offset

Public Agency Level 2 Pool

- Asset gain of $98,775. Remaining assets not yet recognized: $1,382,850 (15.52% of the Market Value of Assets)
- Liability Gain/Loss - $41,754 loss
- Total Premium - Remains at $2.00, the required employee offset

Public Agency Level 3 Pool

- Asset gain of $1,030,949. Remaining assets not yet recognized: $14,433,283 (15.32% of the Market Value of Assets)
- Liability Gain/Loss - $418,945 gain, most of which can be attributed to actual claims being lower than expected
- Total Premium - Remains at $2.00, the required employee offset

Public Agency Level 4 Pool

- Asset gain of $1,822,784. Remaining assets not yet recognized: $25,518,972 (15.60% of the Market Value of Assets)
- Liability Gain/Loss - $348,198 gain, most of which can be attributed to actual claims being lower than expected
- Total Premium - Decreases from $4.80 to $4.50

Public Agency Indexed Pool

- Asset gain of $227,758. Remaining assets not yet recognized: $3,188,608 (14.95% of the Market Value of Assets)
- Liability Gain/Loss - $221,809 gain, some of which can be attributed to actual claims being lower than expected
- Total Premium – Increases from $2.80 to $2.90

  Asset and liability gains were not enough to offset the increase in total normal cost. The increase in normal cost can be attributed to the fact that the ratio of safety members to miscellaneous members increased from the prior valuation to this valuation. In the prior valuation there were 11.8% more safety members than miscellaneous members. In this valuation that percentage increased to 21.4%. Safety members have inherently more pre-retirement mortality risk than do miscellaneous members.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial & Employer Services Division.

VI. RESULTS/COSTS:

See report.

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